

# **SCHEDULE A**

## **ANNUAL BUDGET AND SUPPORTING DOCUMENTATION OF ALFRED NZO DISTRICT MUNICIPALITY**

**ANNUAL BUDGET OF**  
**ALFRED NZO DISTRICT**  
**MUNICIPALITY**

**2015/16 TO 2017/18**  
**MEDIUM TERM REVENUE AND**  
**EXPENDITURE FORECASTS**

# 1 Table of Contents

<b>PART 1 – ANNUAL BUDGET .....</b>	<b>5</b>
<b>2 MAYOR'S REPORT .....</b>	<b>5</b>
2.1 BUDGET RESOLUTIONS.....	10
2.2 EXECUTIVE SUMMARY .....	11
2.3 OPERATING REVENUE FRAMEWORK .....	17
2.3.1 <i>Sale of Water and Impact of Tariff Increases</i> .....	23
2.3.2 <i>Sanitation and Impact of Tariff Increases</i> .....	23
2.4 OPERATING EXPENDITURE FRAMEWORK.....	23
2.5 CAPITAL EXPENDITURE .....	27
2 MUNICIPAL MANAGER'S QUALITY CERTIFICATE .....	32

## Abbreviations and Acronyms

AMR	Automated Meter Reading	ℓ	litre
ASGISA	Accelerated and Shared Growth Initiative	LED	Local Economic Development
BPC	Budget Planning Committee	MEC	Member of the Executive Committee
CBD	Central Business District	MFMA	Municipal Financial Management Act Programme
CFO	Chief Financial Officer	MIG	Municipal Infrastructure Grant
CM	City Manager	MMC	Member of Mayoral Committee
CPI	Consumer Price Index	MPRA	Municipal Properties Rates Act
CRRF	Capital Replacement Reserve Fund	MSA	Municipal Systems Act
DBSA	Development Bank of South Africa	MTEF	Medium-term Expenditure Framework
DoRA	Division of Revenue Act	MTREF	Medium-term Revenue and Expenditure Framework
DWA	Department of Water Affairs	NERSA	National Electricity Regulator South Africa
EE	Employment Equity	NGO	Non-Governmental organisations
EEDSM	Energy Efficiency Demand Side Management	NKPIs	National Key Performance Indicators
EM	Executive Mayor	OHS	Occupational Health and Safety
FBS	Free basic services	OP	Operational Plan
GAMAP	Generally Accepted Municipal Accounting Practice	PBO	Public Benefit Organisations
GDP	Gross domestic product	PHC	Provincial Health Care
GDS	Gauteng Growth and Development Strategy	PMS	Performance Management System
GFS	Government Financial Statistics	PPE	Property Plant and Equipment
GRAP	General Recognised Accounting Practice	PPP	Public Private Partnership
HR	Human Resources	PTIS	Public Transport Infrastructure System
HSRC	Human Science Research Council	RG	Restructuring Grant
IDP	Integrated Development Strategy	RSC	Regional Services Council
IT	Information Technology	SALGA	South African Local Government Association
kℓ	kilolitre	SAPS	South African Police Service
km	kilometre	SDBIP	Service Delivery Budget Implementation Plan
KPA	Key Performance Area	SMME	Small Micro and Medium Enterprises
KPI	Key Performance Indicator		
kWh	kilowatt		

## **Part 1 – Annual Budget**

---

### **EXECUTIVE MAYOR, CLLR. E.N. DIKO'S POLICY SPEECH DURING TABLING OF THE DRAFT 2016/17 IDP/BUDGET OF THE ALFRED NZO DISTRICT MUNICIPALITY TO THE SITTING OF ORDINARY COUNCIL MEETING HELD AT ALFRED NZO COUNCIL CHAMBER'S ON THE 29 MARCH 2016**

---

Honourable Speaker of the Council

Chief Whip of the Council and Whippery

Deputy Executive Mayor

Members of the Mayoral Committee

Councillors

linkosi zomthonyama zelizwe lethu

Municipal Manager

Senior Managers and Managers

Alfred Nzo Development Agency CEO

All our officials present here today

Distinguished guests in the gallery

Members of the media

Friends and Comrades

Mr Speaker and the Council, let me take this opportunity to thank the people of Alfred Nzo who have visited all our voting stations to register for the upcoming local government elections and encourage many more to visit their voting stations once again on the 9<sup>th</sup> -10<sup>th</sup> of April 2016, when the last round of voter registration is to be held.

Honourable Speaker and Councillors, neenkosi sihlangu apha emva kwe Ntetho yoBume beSizwe (State of the Nation Address) SONA, which was delivered by President Jacob Zuma last month, as well as the address by Premier Phumulo Masualle in his State of the Province Address.

Honourable Councillors and Traditional Leaders, President Zuma and Premier Masualle outlined a clear programme of action, which will be instrumental in driving the developmental

agenda of our country and the province in the ANC government's strides to move South Africa forward.

Furthermore, let me take this opportunity, as we are about to step into the freedom month which is April and invite members of this Council to join in a series of activities that are scheduled to celebrate and mark the Freedom month.

As part of the Freedom Month activities government will also conduct Izimbizo Focus Week on the 4<sup>th</sup>-10<sup>th</sup> April which is a direct and interactive information sharing platform between government and people giving credibility to a participatory democracy.

The 2016 Izimbizo week activities, Honourable members should be a platform to set the record straight about government achievements, outlining progress and celebrating successes, taking realistic stock of the types of challenges confronting the country, and above all, instilling confidence in communities that South Africa is indeed moving forward.

Furthermore, the Imbizo focus week will also coincide with the final registration weekend ahead of the local government elections 2016; the week further provides an opportunity for political principals to galvanise and mobilise South Africans through voter education outreaches to register and verify their voting details.

As we continue to advance with the development of this district, Honourable members of this house, we have to acknowledge significant progress that has been made in the district towards provision of water and sanitation, but more is still to be done, as many of our communities are still in need of these essential life changing services.

In the 2016/17 financial year we will see the acceleration of delivering water, sanitation, driving local economic development and providing necessary strategies to prevent and respond during disasters as part of Community Development Services programmes.

Honourable Chief Whip and the Whippers, the draft municipal programme of action that we are presenting today to this Council has taken into consideration a number of issues raised by communities and constituencies across the district.

Lenkqubo yomnyaka mali ka 2016/17 siyithi thaca phambi kwelibhunga lihloniphekileyo namhlanje ivela kwizimvo zoluntu lwesithili noluthle lwazivelisa kwinkqubo ezithe zasingathwa kwindawo ngendawo, nalapho bebehlomla ngomgama osele uhanjiwe, ngaxeshanye besiphathisa umphako kwizinto ezingumceli mngeni kwimpilo zabo, nabathi urhulumente wabo makangenelele kuzo.

Malungu eliBhunga masicacise ukuba siseza kuphindela kuluntu njengenxalenye ye IDP/Bugdet outreach ukuyokothula ngokusesikweni esisicwangciso kuluntu khonukuze luhlomle kuso ngaxeshanye sibambisane nabo xa sele similisela lomgaqo nkqubo wophuhliso. Sakuthi ke sibuyele kwiBhunga kwakhona kwinyanga kaMay ukuzokothula ngokusesikweni isicwangciso salo masipala wesithili sonyaka mali ka 2016/17 esigqibeleleyo.

Ukanti Somlomo neBhunga ngokubanzi kubalulekile ukuthi sitsho ukuba lenkqubo izakuthi ibe yinxalenye yezicwangciso ezakuthi zimiliselwe liBhunga elitsha emva koloNyulo

lorhulumente basemakhaya, noluzakubhengezwa kungekudala.

Indlala nentswelo-ngqesho yenye yeengxaki esijongene nazo singurhulumente noluntu ngokubanzi lwase Alfred Nzo, in our efforts to ignite and drive the district economy, we have tasked the Local Economic Development Unit and the Alfred Nzo Development Agency to work together in developing and implementing various economic development initiatives that are to address poverty and unemployment in our region.

Mr Speaker, it is with great pleasure for me to address this important sitting of the Council to table the Draft Integrated Development Plan (IDP) and Budget for the 2016/17 financial year of the adopted ANDM IDP 5 Year Plan 2012-17, to respond to our people's needs and the development of our district and these documents are tabled to this Council for noting, as we will be going on the last round of IDP/Budget outreaches soon.

Alfred Nzo District Municipality is both a Water Service Authority and Water Services Provider; hence the key priority is to provide these essential services to every household. Honourable Councillors, significant progress has been made with respect to the implementation of district priorities that are primarily focused on the powers and functions of the municipality.

It is imperative to acknowledge the fact that the narrowing fiscal envelope and the continued increasing demand for service delivery by our communities, necessitates the Council to develop fiscal sustainability.

In response to the economic challenges facing the country, as well as our allocations, we have a responsibility to ensure that funds are allocated efficiently to where they are most needed by pursuing reprioritisation, program reviews and budget reviews.

We are going to the Council Strategic Planning Session this afternoon and over the next three days we must make an undertaking which ensures that big chunk of our funding goes to initiatives that work and have maximum impact for the development of our district and importantly our people.

In response to budget challenges that we face as this Council, we have to adopt cost cutting measures in order to prevent excessive expenditure on Travel and Subsistence, consultants, venue hire, accommodation, catering, municipal vehicles, cellphones and telephones, car hire and these measures applies to all employees and councillors.

As the municipality, we have to accelerate our efforts to implement the revenue enhancement strategy and the funds generated internally will then be channeled towards acceleration of basic services to our people.

Honourable Speaker and Councillors, the total operating revenue is R2.1 billion has increased by R1 billion for the 2016/17 financial year when compared to the 2015/16 Budget which was R1.218 billion.

The budget also indicates that the district municipality is highly dependent on grants as it has received R 717 million and R387 million from equitable share.

Meanwhile, over the years, the district municipality has been able to maintain a sufficient reserve base and the current year budget has been appropriated with R38 million to assist in financing both operational and capital expenditure from internal funds.

Mr. Speaker and Councillors, over the past four years we have indicated that our reserves are getting depleted and we are now in that period, hence there is a need to continue to leave within our means and do away with nice to have's, and also take into cognisance the Back To Basics Principles.

In an attempt to assist municipalities in revenue collection the National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure the following:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

Honourable Councillors, in this regard that a tariff increase of 6.2 per cent from 01 July 2016 for water is recommended and this is based mainly on the Consumer Price Index (CPI) inflation rate as projected by the National Treasury.

In addition once credible systems are put in place, it is expected that 6 kℓ water per 30-day period will again be granted free of charge to all qualifying residents.

Furthermore, a tariff increase of 6.2 per cent for sanitation from 01 July 2016 is also recommended and this is based on the input cost assumptions related to water.

Mr. Speaker there has been an increase in our budget, as we have received R8 million for Energy Efficiency and Demand Side Management Grant, which is aimed to provide subsidies to municipalities to implement Energy Efficiency and Demand Side Management initiatives within municipal infrastructure, in order to reduce electricity consumption and improve energy efficiency.

Meanwhile, the budgeted allocation for employee related costs continues to increase every year as it was R204 million in this current year and for 2016/17 financial year is provided at R223 million. This amount should be a serious concern to the municipality, as every year we continue to spend on employee costs beyond the set acceptable personnel costs to operating costs which they range between 25-40%.

More pleasing, Honorable Councillors, water and sanitation projects have received the highest allocation of **R1.3 billion for 2016/17, as compared to this current year allocation which was at R703 million** in 2015/16.

Included in the budget provision is an amount of R20 million (2016/17), respectively in lieu of the Alfred Nzo Development Agency.

Honorable Councillors, in response to our ageing infrastructure demands and maintenance, the budget for repairs and maintenance of the water and sanitation infrastructure is provided at R38 million with the main aim to provide sustainable water and sanitation services to our communities. Let's also be mindful of the fact that our infrastructure has faced severe strain due to the ongoing drought in the district and cost thereof are expected to escalate as the drought continues.



In our concerted efforts to fight unemployment the implementation of Expanded Public Works Programme (EPWP) for the year 2016/2017 is budgeted for as per the DORA allocation at R6 million.

Mr. Speaker, it is with great pleasure for me to address this Council, on the sitting of the important meeting of tabling of the draft Integrated Development Plan and budget for 2016/17 financial year of the adopted ANDM IDP 5Year Plan 2012-17, as guided by Chapter 5 Section 25 of the Municipal Systems Act, 2000, as amended.

As mandated by the said legislation through Section 27 of the same Act, the municipality in consultation with all local municipalities drafted and adopted IDP Framework Plan that has guided the process of developing IDPs.

**In conclusion Mr. Speaker and the Council, I therefore recommend that:**

The Council notes the draft budget in line with section 24 of the Municipal Finance Management Act, (Act 56 of 2003) as presented to the Council.

That the attached draft IDP, Budget and budget related policies in respect of the 2016/2017 be notes as follows:

Total Operating Income	<b>R 2 143 036 920</b>
Total Operating Expenditure	<b><u>R 2 143 036 775</u></b>
Surplus	R (145)

- Furthermore, the Council, acting in terms of section 75(a) of the Local Government: Municipal Systems Act (Act 32 of 2000 as amended) adopts with effect from 01 July 2016 the draft tariffs for the supply of water, the draft tariffs for sanitation services and all other tariffs as entailed in the municipality's tariff policy

I thank you

## **2.1 Budget Resolutions**

On 29 March 2016 a sitting of the Council of Alfred Nzo District Municipality met in the Council Chambers to consider the annual budget and draft Integrated Development Plan of the municipality for the financial year 2016/17. A Council sitting of 29 March 2016 will further take the following resolutions:

1. In line with section 24 of the Municipal Finance Management Act, (Act 56 of 2003), council resolved to adopt:
  - 1.1. The annual budget of the municipality for the financial year 2016/17 and the multi-year and single-year capital appropriations as set out in the following tables:
    - 1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification);
    - 1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote);
    - 1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type); and
    - 1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding
    - 1.1.5. Budget Related Policies
2. The Council meeting, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000 as amended) further recommended noting of the following:
  - 2.1. the tariffs for the supply of water
  - 2.2. the tariffs for sanitation services

## 2. Executive Summary

The application of sound financial management principles for the implementation of the District Municipality's budget is essential and critical to ensure that the district municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The district municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programs so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have' items. This has resulted in partial savings to the district municipality. Key areas where savings were realized were on telephone and internet usage, printing, workshops, traveling and accommodation, and catering.

It is planned that in order to realize the revenue provisions as outlined in the budget, the district municipality needs to embark on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the district municipality needs to undertake various customer care initiatives to ensure that the district municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular's No. 51, 54, 58, 59, 66, 67, 70, 72, 74, 75 and 79 were used to guide the compilation of the 2016/17 MTREF.

The main challenges experienced during the compilation of the 2016/17 MTREF can be summarized as follows:

- The ongoing difficulties in the national and local economy resulting in a weakened global economic outlook and a pattern of slow growth;
- Downward revision of South Africa's gross domestic product (GDP) forecast for 2016/17; and as well as possible downward rating of SA economic statues;
- Aging and poorly maintained water and sanitation infrastructure;
- The need to reprioritize projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of bulk water (due to tariff increase by the Department of Water Affairs), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- Affordability of capital projects; and
- Continued budget provisions being made for unfunded/partially funded mandates (Municipal Health Services).

The following budget principles and guidelines directly informed the compilation of the 2016/17 MTREF:

- The 2015/16 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were used as the upper limits for the new baselines for the 2016/17 annual budget, and as well as MFMA circulars;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Tariff increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water and electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial unfunded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;
- Going back to basics and reduction of expenditure on nice to have's.

In view of the aforementioned, the following table is a consolidated overview of the proposed 2016/17 Medium-term Revenue and Expenditure Framework:

**Table 1.a Consolidated Overview of the 2016/17 MTREF**

		Medium Term Revenue & Expenditure Framework (MTREF)		
		BUDGET YR. 1	BUDGET YR. 2	BUDGET YR. 3
	2015/2016	2016/2017	2017/2018	2018/2019
	ADJUSTED BUDGET	ANNUAL BUDGET	ANNUAL BUDGET	ANNUAL BUDGET
Total Revenue	1 318 930 802	2 143 036 920	1 385 837 041	1 485 237 292
Total Operating Expenditure	(523 777 241)	(646 254 023)	(643 278 891)	(678 714 122)
Surplus/Deficit for the Year	<b>795 152 241</b>	<b>1 496 782 752</b>	<b>742 558 120</b>	<b>806 523 156</b>
Total Capital Expenditure	(795 152 592)	(1 496 782 752)	(742 558 120)	(806 523 156)
<b>NET SURPLUS/(DEFICIT)</b>	<b>-969</b>	<b>-145</b>	<b>-30</b>	<b>-16</b>

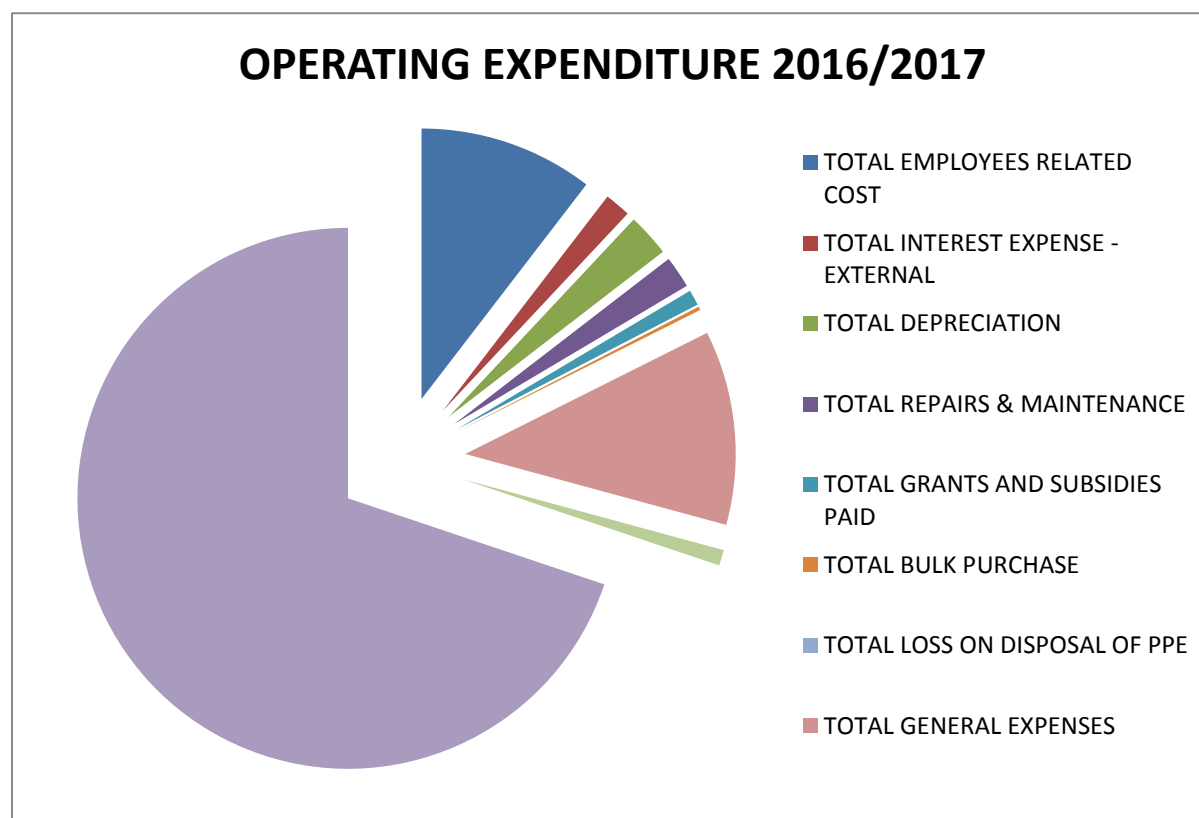
B

<b>REVENUE SOURCES 2016 – 2017</b>		
INTERNAL FUNDS	38 608 920	1.8%
GRANTS -NT / PT	717 381 000	33.5%
EQUITABLE SHARE	387 047 000	18%
EXTERNAL LOAN	1 000 000 000	46.7%
<b>Total expenditure</b>	<b>2 143 036 920</b>	<b>100%</b>

## EXPENDITURE ALLOCATIONS

Table 1 C

<b>OPERATING EXPENDITURE</b>			
<b>DESCRIPTION</b>	<b>AMOUNT</b>	<b>% TO OPEX</b>	<b>% TO TOT</b>
TOTAL EMPLOYEES RELATED COST	223 512 118	<b>34.59%</b>	<b>10.43%</b>
TOTAL INTEREST EXPENSE - EXTERNAL	33 369 175	<b>5.16%</b>	<b>1.56%</b>
TOTAL DEPRECIATION	55 000 000	<b>8.51%</b>	<b>2.57%</b>
TOTAL REPAIRS & MAINTENANCE	41 031 901	<b>6.35%</b>	<b>1.91%</b>
TOTAL GRANTS AND SUBSIDIES PAID	20 000 000	<b>3.09%</b>	<b>0.93%</b>
TOTAL BULK PURCHASE	4 500 000	<b>0.70%</b>	<b>0.21%</b>
TOTAL LOSS ON DISPOSAL OF PPE	-	<b>0.00%</b>	<b>0.00%</b>
TOTAL GENERAL EXPENSES	248 840 830	<b>38.51%</b>	<b>11.61%</b>
TOTAL CONTR TO/FROM PROVISIONS	20 000 000	<b>3.09%</b>	<b>0.93%</b>
CAPITAL PROJECTS	1 496 782 752	<b>0.00%</b>	<b>69.84%</b>
	<b>2 143 036 775</b>	<b>100.00%</b>	<b>100.00%</b>



<b>ALFRED NZO DISTRICT MUNICIPALITY</b> <b>PROPOSED DRAFT ANNUAL BUDGET 2016 - 2017 MTREF</b> <b>SUMMARY - DRAFT APPROVED BUDGET</b>					
Budget 2016- 2017	BUDGET YR. 1		BUDGET YR.1	BUDGET YR.2	BUDGET YR.3
	2015/2016		2016/17 Medium Term Revenue & Expenditure Framework		
	ORIGINAL BUDGET	MID-TERM ADJUSTED BUDGET	Proposed Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
DESCRIPTIONS	R	R	R	R	R
<b>REVENUE SOURCES</b>					
INTERNAL FUNDS		-36 961 114	-38 608 920	-56 174 091	-58 603 362
GRANTS -NT / PT	-645 085 000	-606 079 658	-717 381 000	-800 602 000	-810 345 000
EQUITABLE SHARE	-365 517 000	-365 517 000	-387 047 000	-417 686 000	-448 072 000
EXTERNAL LOAN	-78 222 000	-244 179 000	-1 000 000 000	-	-
OPERATING RESERVES	-56 194 030	-66 194 030	-	-111 374 950	-168 216 930
<b>TOTAL OPERATING REVENUE</b>	<b>-1 145 018 030</b>	<b>-1 318 930 802</b>	<b>-2 143 036 920</b>	<b>-1 385 837 041</b>	<b>-1 485 237 292</b>

<b>ALFRED NZO DISTRICT MUNICIPALITY</b> <b>PROPOSED DRAFT ANNUAL BUDGET 2016 - 2017 MTREF</b> <b>SUMMARY - DRAFT APPROVED BUDGET</b>					
Budget 2016- 2017	BUDGET YR. 1		BUDGET YR.1	BUDGET YR.2	BUDGET YR.3
	2015/2016		2016/17 Medium Term Revenue & Expenditure Framework		
	ORIGINAL BUDGET	MID-TERM ADJUSTED BUDGET	Proposed Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
DESCRIPTIONS	R	R	R	R	R
OPERATING EXPENDITURE					
TOTAL EMPLOYEES RELATED COST	204 322 399	203 689 965	223 512 118	223 614 697	236 807 964
TOTAL INTEREST EXPENSE - EXTERNAL	1 140 000	1 140 000	33 369 175	35 221 632	37 093 748
TOTAL DEPRECIATION	52 500 000	42 500 000	55 000 000	50 000 000	52 950 000
TOTAL REPAIRS & MAINTENANCE	41 181 984	35 717 196	41 031 901	43 575 878	46 146 855
TOTAL GRANTS AND SUBSIDIES PAID	15 000 000	15 000 000	20 000 000	21 240 000	22 493 160
TOTAL BULK PURCHASE	3 500 000	4 154 438	4 500 000	4 779 000	5 060 961
TOTAL LOSS ON DISPOSAL OF PPE	-	-	-	-	-
TOTAL GENERAL EXPENSES	162 187 665	206 575 642	248 840 830	254 847 684	267 571 433
TOTAL CONTR TO/FROM PROVISIONS	15 000 000	15 000 000	20 000 000	10 000 000	10 590 000
<b>TOTAL OPERATING EXPENDITURE</b>	<b>494 832 048</b>	<b>523 777 241</b>	<b>646 254 023</b>	<b>643 278 891</b>	<b>678 714 122</b>
<b>OPERATING (SURPLUS) / DEFICIT</b>	<b>494 832 048</b>	<b>523 777 241</b>	<b>646 254 023</b>	<b>643 278 891</b>	<b>678 714 122</b>
<b>CAPITAL PROJECTS</b>	<b>723 401 033</b>	<b>795 152 592</b>	<b>1 496 782 752</b>	<b>742 558 120</b>	<b>806 523 156</b>
<b>TOTAL EXPENDITURE</b>	<b>1 218 233 081</b>	<b>1 318 929 833</b>	<b>2 143 036 775</b>	<b>1 385 837 011</b>	<b>1 485 237 278</b>

Total Revenue (R2. 143billion) has 38.45% as a results of long-term loan application for capital project funding, increase in equitable share of 5.6% and a total grant increase of grants by 15.51% and internal funding has only increase by 4.27%. A part portion of loan will fund the adjustment budget, the overall of 46.66 percent of long term loan is being funded by a long loan during 2016/17 (R 2.143 Billion) budget financial year when compared to the 2015/16 Adjustments Budget (R1. 318billion) MTREF.

R 834 Million of the loan will fund MIG projects that should have been funded by DBSA before and the balance of R132 million is for revenue generating projects and the balance of R 13 million and 21 Million for Document management system and Mbizana Disaster Centre.

Total operating expenditure for the 2016/17 financial year has been appropriated at 646 million and translates into a percentage increase of 18.88 per cent from 2015/16 adjusted budget. Operating expenditure continues to increase in the outer year during 2018/19 and a small decrease during 2017/18. A slight operating surplus of R145, R30 and R16 rands has been budgeted for over the MTREF.

It must also be emphasized that due to increased pressures from key departments and a spiraling growth in personnel costs coupled with necessary provisions to be made in lieu of depreciation and repairs and maintenance, year on year growth in the district municipalities budget over the MTREF is less than 5%.

The capital budget of R 1.497 billion for 2016/17 has increased by 46.96% from the 2015/16 Adjustment Budget. This increase is mainly attributable to an anticipated and projected increase in funds to be received from the loan application processes approved by ANDM council for the MIG frontloaded projects. Also, due to depleting reserves base that has been predominantly utilized in the previous financial years to finance capital expenditure, provision made from internal reserves has drastically been reduced and fully utilized in MIG projects and frontloading funding since the funding from DBSA frontloading was not approved or proposed and as such reserved have been fully a whopped. However, continuing to finance such project need additional funding source and as such ANDM has made an application of loan funding of R1 billion.

The capital program increases to R 1 497 million in the 2017/18 financial year and then to R 742 million during 2018/19. Also, a portion of the capital budget will be funded from borrowing during 2016/17 with anticipated borrowings of R1 billion coming from the MIG front loading, and from revenue generating projects including implementation of revenue enhancement strategy. In terms of GRAP format Capital Grants receivable are included in the Operating Budget. Capital Expenditure are not included in Operating Budget.

Operating expenditure is the day to day management items of the Municipality, i.e.: Salaries and Wages, Repairs and Maintenance, Debt Servicing, Depreciation on Assets, Insurance, Electricity, Telephone, Subsistence and Travelling Allowances, Fuel etc. The total budget amounts to R442 833 361. Table 1 hereunder summarizes the budget per department. General Managers must manage their own budgets consulting with the Chairpersons of the Standing Committees and the Standing Committees where necessary. Allocations per line item are done by the departments themselves, as long as they don't exceed the amounts allocated per Table

1. Table 1 which is Consolidated Overview of the 2016/17 Medium Term Revenue Expenditure Forecast.

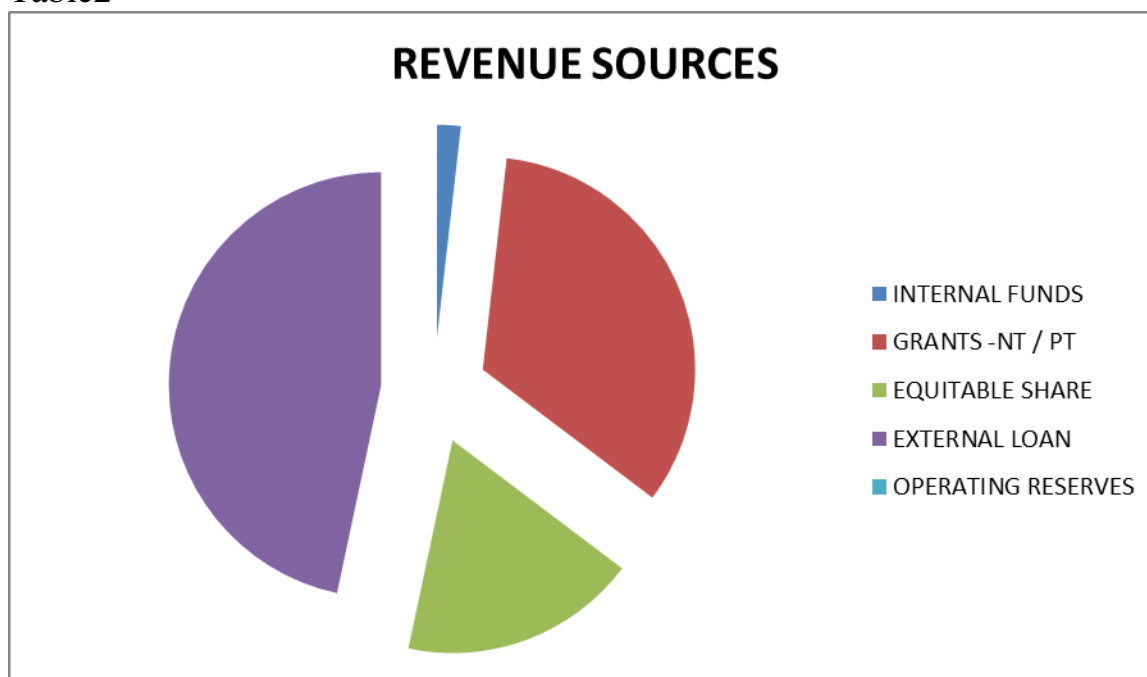


### 3. Operating Revenue Framework

**Table 2 Summary of revenue classified by main revenue source**

<b>REVENUE SOURCES 2016/2017</b>		
<b>DESCRIPTION</b>	<b>AMOUNT</b>	<b>%</b>
INTERNAL FUNDS	-38 608 920	<b>1.80%</b>
GRANTS -NT / PT	-717 381 000	<b>33.47%</b>
EQUITABLE SHARE	-387 047 000	<b>18.06%</b>
EXTERNAL LOAN	-1 000 000 000	<b>46.66%</b>
OPERATING RESERVES	-	<b>0.00%</b>
<b>TOTAL OPERATING REVENUE</b>	<b>-2 143 036 920</b>	<b>100.00%</b>

Table2



Implementing a revenue enhancement turnaround strategy is the only plan to be implemented to achieve better revenue outcomes, by critically reviewing the current revenue management business models and processes being applied within the Alfred Nzo District Municipality.

To effectively deal with the current challenges, ANDM must plan and implement effective and integrated revenue enhancement strategies. To improve on the current business model it is important to identify all the critical elements that currently affect municipal revenue performance.

This review process will provide a sound platform for effective planning. The need for an integrated approach should not be taken lightly. Isolated projects that focus on symptoms like debt and access to services, rather than root cause further compound the current crisis.

For the district municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the district municipality and continued economic development;
- Efficient revenue management, which aims to ensure approximately 60% per cent of annual collection rate for key service charges;
- Achievement of full cost recovery of specific user charges especially in relation to trading services (water and sanitation);
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- Increase ability to extend new services and recover costs;

### **3.1 Conventional Water Meter & Prepaid Water Meter Maintenance**

To ensure that the prepaid water meters installed are maintained and kept in working order, the maintenance of these meters will be critical, in future we expect to see an increase in water meter maintenance. The maintenance process required that the correct procedures are followed to ensure that should the Auditor General (AG) require any information, all will be available. These procedures included: - Logging on the maintenance issue, issuing of a Works Order, recording the action taken by the visiting plumbers, this could include: Possible materials used; the labelling and storage of each meter being removed; recording of the prepaid meter number replaced; completion of the warranty form if required, register GPS Coordinates; register Time and Date of action, pairing of User Interface units of consumers.

Continued installation of water meters to all consumers so as to recover the related costs;

- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the district municipality.

The following table is a summary of the 2016/17 MTREF (classified by main revenue source):

**DC44 Alfred Nzo - Table A1 Consolidated Budget Summary**

Description  R thousands	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
<b>Financial Performance</b>										
Property rates	–	–	–	–	–	–	–	–	–	–
Service charges	13 720	16 723	21 908	34 159	23 059	23 059	23 059	28 509	38 931	41 228
Investment revenue	12 030	16 487	27 160	25 000	200	200	200	8 000	15 000	15 000
Transfers recognised – operational	351 552	492 969	819 941	409 733	370 728	370 728	370 728	531 431	593 507	575 323
Other own revenue	1 725	2 185	215	148 468	237 769	237 769	237 769	2 429	113 980	170 976
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>379 028</b>	<b>528 364</b>	<b>869 223</b>	<b>617 360</b>	<b>631 756</b>	<b>631 756</b>	<b>631 756</b>	<b>570 369</b>	<b>761 418</b>	<b>802 527</b>
Employee costs	–	–	180 067	–	204 489	204 489	204 489	214 079	213 597	226 199
Remuneration of councillors	6 983	7 593	8 368	9 001	9 001	9 001	9 001	9 433	10 018	10 609
Depreciation & asset impairment	–	–	51 416	52 500	42 500	42 500	42 500	55 000	50 000	52 950
Finance charges	2 837	2 175	1 641	1 140	1 140	1 140	1 140	33 369	35 222	37 094
Materials and bulk purchases	15 242	50 092	38 360	41 182	39 881	39 881	39 881	45 532	48 355	51 208
Transfers and grants	268 107	148 303	98 946	15 000	17 000	17 000	17 000	20 000	21 240	22 493
Other expenditure	3 999	14 014	131 079	15 000	283 059	283 059	283 059	268 841	264 848	278 161
<b>Total Expenditure</b>	<b>297 168</b>	<b>222 177</b>	<b>509 877</b>	<b>133 823</b>	<b>597 070</b>	<b>597 070</b>	<b>597 070</b>	<b>646 254</b>	<b>643 279</b>	<b>678 714</b>
<b>Surplus/(Deficit)</b>	<b>81 860</b>	<b>306 187</b>	<b>359 346</b>	<b>483 538</b>	<b>34 686</b>	<b>34 686</b>	<b>34 686</b>	<b>(75 885)</b>	<b>118 140</b>	<b>123 813</b>
Transfers recognised – capital	392 873	244 041	–	600 873	600 526	600 526	600 526	1 572 997	624 781	683 094
Contributions recognised - capital & contributed assets	–	–	–	–	–	–	–	–	–	–
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	<b>474 732</b>	<b>550 229</b>	<b>359 346</b>	<b>1 084 410</b>	<b>635 212</b>	<b>635 212</b>	<b>635 212</b>	<b>1 497 112</b>	<b>742 921</b>	<b>806 907</b>
Share of surplus/ (deficit) of associate	–	–	(337)	–	–	–	–	–	–	–
<b>Surplus/(Deficit) for the year</b>	<b>474 732</b>	<b>550 229</b>	<b>359 009</b>	<b>1 084 410</b>	<b>635 212</b>	<b>635 212</b>	<b>635 212</b>	<b>1 497 112</b>	<b>742 921</b>	<b>806 907</b>
<b>Capital expenditure &amp; funds sources</b>										
<b>Capital expenditure</b>	<b>198 520</b>	<b>306 630</b>	<b>–</b>	<b>723 401</b>	<b>635 212</b>	<b>635 212</b>	<b>635 212</b>	<b>1 496 783</b>	<b>742 558</b>	<b>806 523</b>

Alfred Nzo District Municipality

## 2016/17 Annual Budget and MTREF

[illegible]

Only revenue generated from water and sanitation service charges forms a significant percentage of own generated revenue. Such revenue totals R34.1 million (2015/16), R36.1 million (2016/17) and R45.1million (2017/18) over the MTREF. Currently, the district municipality is performing a water meter audit, replacement and installation of new water and prepaid water meters exercise from source to tap for all consumers. This project is expected to be completed by June 2017. Linked to this project is a data cleansing project. Once the meter audit is completed, all faulty meters will either be fixed or replaced as well as installation of new water meters for all consumers who do not have functioning water meters.

Included on R 1 Billion loan is amount of R55 Million to finance prepaid water meters purchases and installations costs. Likewise with all other rural district municipalities, our District municipality significantly relies on grants to finance both its operations and capital expenditure without which it could cease to exist. The implementation of revenue enhancement strategy is imperative in ensuring increase in ANDM's internal revenue.

Included in programs budgeted for that continue to be unfunded mandates is Municipal Health Services. The agreement signed between the district municipality and the relevant department is silent on the actual amount to be received for the 2016/17 financial year. Until the district municipality realizes the portion of grant to finance expenditure that goes with this function, continuing to finance it internally will remain an unfunded mandate. As a result of this anomaly and as required by the Municipal Budget and Reporting Regulations, the 2016/17 budget has not accounted for any grant to be received in lieu of this function as it has not been gazetted in the Provincial Gazette.

Operating grants and transfers totals R44.2 million in the 2015/16 financial year and decreases to R21 million in 2016/17 and steadily increases again to R19.1 million in 2017/18. The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

Table 3 Operating Transfers and Grant Receipts

		BUDGET YR.1	BUDGET YR.2	BUDGET YR.3
	CURRENT YEAR 2015/16	2015/16 Medium Term Revenue & Expenditure		
	MID-TERM ADJUSTED BUDGET	Proposed Budget 2016/17	Budget Year +1 2016/18	Budget Year +1 2018/19
FMG GRANT	-1 325 000	-1 460 000	-1 795 000	-2 050 000
FIRE & EMERGENCY	0	0	0	0
MSIG	-930 000	-1 790 000	-2 425 000	-761 000
EPWP	-4 853 000	-6 006 000	-	-
WSOG	-10 000 000	0	0	0
TRANSPORT	-2 100 000	-2 157 000	-2 299 000	-2 440 000
WSOG	-10 000 000	-101 171 000	-151 741 000	-105 000 000
MUNICIPAL HEALTH	-2 500 000	0	0	0
ISDG	-3 000 000	-5 000 000	-4 561 000	-5 000 000
ENERGY EFFIC & DEMAND SIDE MAN	-6 000 000	-8 000 000	-6 000 000	-5 000 000
DBSA GRANT FUNDING	-3 000 000	0	0	0
LG SETA – GRANT	-500 000	-10 000 000	-7 000 000	-7 000 000
	<b>-645 085 774</b>	<b>-717 381 000</b>	<b>- 800 602 000</b>	<b>- 810 345 000</b>

#### 4. Sale of Water and Impact of Tariff Increases

South Africa faces similar challenges with regard to water supply as it did with electricity, since demand growth outstrips supply. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

In addition, National Treasury has urged all municipalities to ensure that water tariff structures are cost reflective. As a district municipality, plans are that once the water meter audit exercise is completed as well as installation of water meters, a tariff determination exercise will be performed for full implementation during the 2017/18 financial year.

Better maintenance of infrastructure, new dam construction and cost-reflective tariffs will ensure that the supply challenges are managed in future to ensure sustainability.

A tariff increase of 7 per cent from 1 July 2016 for water is proposed. This is based primary based on the CPI inflation rate of 6.6 per cent as projected by the National Treasury. In addition once credible systems are put in place it is expected that 6 kl water per 30-day period will again be granted free of charge to all qualifying residents.

#### 4.1. Sanitation and Impact of Tariff Increases

A tariff increase of 7 per cent for sanitation from 1 July 2016 is also proposed. This is based on the input cost assumptions related to water. The proposed tariff increases remain the same as those proposed in the current year. Due to prevailing economic conditions, increasing these beyond the current inflation rate would impact negatively on consumers ability to service their debts.

#### 5.2 Operating Expenditure Framework

The District Municipality's expenditure framework for the 2016/17 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Ensuring that the district municipality implements the back to basics exercise so as to reduce non-priority spending.

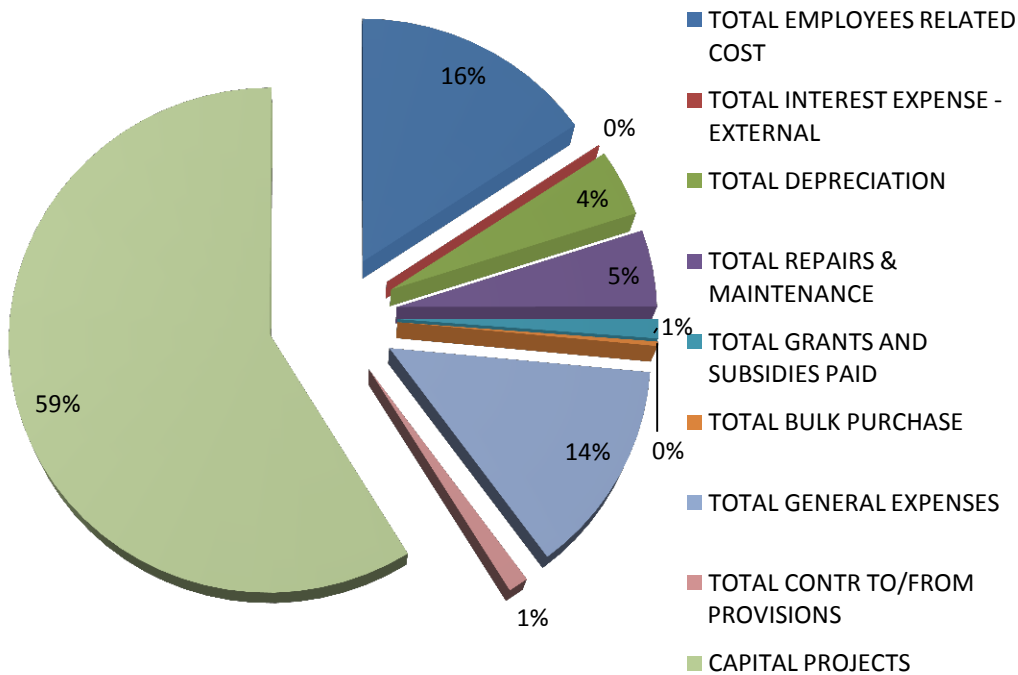
The following table is a high level summary of the 2016/17 budget and MTREF (classified per main type of operating expenditure):

DC44 Alfred Nzo - Table A4 Consolidated Budgeted Financial Performance (revenue and expenditure)

Description		Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
R thousand		1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
<b>Revenue By Source</b>												
Property rates	2	-	-	-	-	-	-	-	-	-	-	-
Property rates - penalties & collection charges												
Service charges - electricity revenue	2	-	-	-	-	-	-	-	-	-	-	-
Service charges - water revenue	2	13 720	16 723	16 951	30 700	20 650	20 650	20 650	20 650	25 750	36 001	38 125
Service charges - sanitation revenue	2	-	-	1 816	3 459	2 409	2 409	2 409	2 409	2 759	2 930	3 103
Service charges - refuse revenue	2	-	-	-	-	-	-	-	-	-	-	-
Service charges - other		-	-	3 140								
Rental of facilities and equipment		330	255	184	338	331	331	331	331	330	363	384
Interest earned - external investments		12 030	16 487	27 160	25 000	200	200	200	200	8 000	15 000	15 000
Interest earned - outstanding debtors		-	-	-	12 000	12 000	12 000	12 000	12 000			
Dividends received		-	-	-	-	-	-	-	-	-	-	-
Fines		-	-	-	-	-	-	-	-	-	-	-
Licences and permits		-	-	-	-	-	-	-	-	-	-	-
Agency services		53	4	31								
Transfers recognised - operational		351 552	492 969	819 941	409 733	370 728	370 728	370 728	370 728	531 431	593 507	575 323
Other revenue	2	1 229	1 299	-	136 130	225 438	225 438	225 438	225 438	2 099	113 617	170 591
Gains on disposal of PPE		113	627									
<b>Total Revenue (excluding capital transfers and contributions)</b>			<b>379 028</b>	<b>528 364</b>	<b>869 223</b>	<b>617 360</b>	<b>631 756</b>	<b>631 756</b>	<b>631 756</b>	<b>570 369</b>	<b>761 418</b>	<b>802 527</b>
<b>Expenditure By Type</b>												
Employee related costs	2	-	-	180 067	-	204 489	204 489	204 489	204 489	214 079	213 597	226 199
Remuneration of councillors		6 983	7 593	8 368	9 001	9 001	9 001	9 001	9 001	9 433	10 018	10 609
Debt impairment	3	3 999	14 014	13 543	15 000	15 000	15 000	15 000	15 000	20 000	10 000	10 590
Depreciation & asset impairment	2	-	-	51 416	52 500	42 500	42 500	42 500	42 500	55 000	50 000	52 950
Finance charges		2 837	2 175	1 641	1 140	1 140	1 140	1 140	1 140	33 369	35 222	37 094
Bulk purchases	2	-	-	4 168	-	4 154	4 154	4 154	4 154	4 500	4 779	5 061
Other materials	8	15 242	50 092	34 192	41 182	35 726	35 726	35 726	35 726	41 032	43 576	46 147
Contracted services		-	-	29 825	-	-	-	-	-	-	-	-
Transfers and grants		268 107	148 303	98 946	15 000	17 000	17 000	17 000	17 000	20 000	21 240	22 493
Other expenditure	4, 5	-	-	87 711	-	268 059	268 059	268 059	268 059	248 841	254 848	267 571
Loss on disposal of PPE												
<b>Total Expenditure</b>			<b>297 168</b>	<b>222 177</b>	<b>509 877</b>	<b>133 823</b>	<b>597 070</b>	<b>597 070</b>	<b>597 070</b>	<b>646 254</b>	<b>643 279</b>	<b>678 714</b>
<b>Surplus/(Deficit)</b>												
		81 860	306 187	359 346	483 538	34 686	34 686	34 686	34 686	(75 885)	118 140	123 813
Transfers recognised - capital		392 873	244 041		600 873	600 526	600 526	600 526	600 526	1 572 997	624 781	683 094
Contributions recognised - capital	6	-	-	-	-	-	-	-	-	-	-	-
Contributed assets												
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>			<b>474 732</b>	<b>550 229</b>	<b>359 346</b>	<b>1 084 410</b>	<b>635 212</b>	<b>635 212</b>	<b>635 212</b>	<b>1 497 112</b>	<b>742 921</b>	<b>806 907</b>
Taxation												
<b>Surplus/(Deficit) after taxation</b>			<b>474 732</b>	<b>550 229</b>	<b>359 346</b>	<b>1 084 410</b>	<b>635 212</b>	<b>635 212</b>	<b>635 212</b>	<b>1 497 112</b>	<b>742 921</b>	<b>806 907</b>
Attributable to minorities												
<b>Surplus/(Deficit) attributable to municipality</b>			<b>474 732</b>	<b>550 229</b>	<b>359 346</b>	<b>1 084 410</b>	<b>635 212</b>	<b>635 212</b>	<b>635 212</b>	<b>1 497 112</b>	<b>742 921</b>	<b>806 907</b>
Share of surplus/ (deficit) of associate	7			(337)								
<b>Surplus/(Deficit) for the year</b>			<b>474 732</b>	<b>550 229</b>	<b>359 009</b>	<b>1 084 410</b>	<b>635 212</b>	<b>635 212</b>	<b>635 212</b>	<b>1 497 112</b>	<b>742 921</b>	<b>806 907</b>



## EXPENDITURE ALLOCATIONS



The budgeted allocation for employee related costs for the 2016/17 financial year totals R236.8 million, which equals 34.59 per cent of the total operating expenditure. In terms of the South African Local Government Association (SALGA), salary increases have been factored into this budget at a percentage increase of 7.6 per cent for the 2016/17 financial year. An annual increase of 6.6 per cent has been included in the two outer years of the MTREF (CPI plus 1%). As part of the District Municipalities cost reprioritization and cash management strategy vacancies have been significantly rationalized downwards.

The cost associated with the remuneration of councilors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the district municipality's budget and a provision of 6 percent has accordingly been made to cushion such costs.

A significant provision has been made in lieu of depreciation expense (R55 million – 2016/17, R50 million – 2017/18 and R52.9 million – 2018/19 respectively). This is in line with the continued capital infrastructure program being implemented by the district municipality on an annual basis. Depreciation is widely considered a proxy for the measurement of the rate of asset consumption. It must also be noted that the implementation of GRAP 17 accounting standard has meant bringing a range of assets

previously not included in the assets register onto the register. This has resulted in a significant increase in depreciation relative to previous years.

The district municipality has made a provision of R41 million in the 2016/17 budget for repairs and maintenance. Whilst this is not in line with the National Treasury's requirement of 6.35% of the total operating cost, provision to be made from the Total Property, Plant and Equipment (PPE) in line with MFMA circular number 55, considering the current budgetary constraints, the district municipality can only stretch itself this far in order to make the necessary provision due to budgetary constraints, further this will have to be assessed before the final budget is complete as in 2015/16 budget the repairs and maintenance were budgeted at 8 per cent. This is however a significant decrease of R19.1 from the provision made in the current year adjusted budget (R60.2 million). The decrease is as a result of properly accounting for costs incurred on all rural water scheme operators costs that have been transferred to salaries and wages in line with AG's recommendations.

As part of the review of the local government infrastructure grant framework, National Treasury has announced in the 2016 Division of Revenue Bill that the rules in the municipal infrastructure grant (MIG) framework will be amended to allow funds to be used to refurbish and replace infrastructure in the future. This will assist municipalities in the long-run as they do not have sufficient funding to make such provisions from their own budgets.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital).

Bulk purchases are directly informed by the purchase of water from the Department of Water Affairs (DWA). The total provision made in lieu of bulk water purchases during 2016/17 is R4.5 million.

## 6. Capital expenditure

**Table 5 Summary of Capital Expenditure Municipal Vote**

DC44 Alfred Nzo - Supporting Table SA35 Consolidated future financial implications of the capital budget

Vote Description  R thousand	Ref	2016/17 Medium Term Revenue & Expenditure Framework			Forecasts			
		Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22	Present value
<b>Capital expenditure</b>	1							
Vote 1 - Executive and Council		2 700	1 612	1 708				
Vote 2 -		-	-	-				
Vote 3 - Planning and Development		75 000	-	-				
Vote 4 - Budget and Treasury Office		4 550	2 797	3 961				
Vote 5 - Technical Services		1 371 383	713 270	775 959				
Vote 6 - Community Services		21 700	10 405	10 112				
Vote 7 - Corporate Services		21 450	14 474	14 783				
Vote 8 -		-	-	-				
Vote 9 -		-	-	-				
Vote 10 -		-	-	-				
Vote 11 -		-	-	-				
Vote 12 -		-	-	-				
Vote 13 -		-	-	-				
Vote 14 -		-	-	-				
Vote 15 -		-	-	-				
<i>List entity summary if applicable</i>								
<b>Total Capital Expenditure</b>		<b>1 496 783</b>	<b>742 558</b>	<b>806 523</b>	-	-	-	-

For 2016/17 a total budget of R1 371 billion has been appropriated for the development of infrastructure which equates to a 91.62 per cent of the total capital budget of ANDM, the figure above includes R 55 million for the purchase of prepaid water meters and installations cost for specifically assist in the implementation of revenue enhancement project.

Further, the building/extension of municipal offices has been budget for R 135 million, sanitation project for Matatiele R 80 million, MIG projects in Mbizana for R 252 Million, and as well as other MIG projects amounting of R 93.6 Million. LED revenue generating project of R75 Million.

Included in the R723 million capital expenditure is an amount of R78.2 million brought into the budget in line with the MIG/DBSA front-loading arrangements and also a total of R367 million has been provided for in lieu of the MIG allocations. Capital projects relating to Regional Bulk Infrastructure total to R143 million.

Whilst it makes sense to finance projects internally, consideration should be made to the extent of internal funds available to finance such projects.

### *7.1 Cash/cash equivalent position*

The Municipality's forecast cash position was discussed as part of the budgeted cash flow statement. A 'positive' cash position, for each year of the MTREF would generally be a minimum requirement, subject to the planned application of these funds such as cash-backing of reserves and working capital requirements.

### *7.2 Cash plus investments less application of funds*

The purpose of this measure is to understand how the municipality has applied the available cash and investments as identified in the budgeted cash flow statement. The detail reconciliation of the cash backed reserves/surpluses will be provided in the final budget. Attached is the provisional report.

**DC44 Alfred Nzo Supporting Table SA10 Funding measurement**

[illegible]

The reconciliation is intended to be a relatively simple methodology for understanding the budgeted amount of cash and investments available with any planned or required applications to be made. This has been extensively discussed above.

### *7.3 Monthly average payments covered by cash or cash equivalents/ Cash flow Statement*

The purpose of this measure is to understand the level of financial risk should the municipality be under stress from a collection and cash in-flow perspective. It is especially important to consider the position should the municipality be faced with an expected disaster that threatens revenue collection such as water or service charges boycotts. As part of the 2015/2016 MTREF the municipalities improving cash position causes the ratio to move upwards to 7.3 and then increase slightly to 9 for outer years. As indicated above the Municipality aims to archive at least one month's cash coverage in the medium term, and then gradually move towards two months coverage. This measure will have to be carefully monitored going forward.

### *7.4 Surplus/deficit excluding depreciation offsets*

The main purpose of this measure is to understand if the revenue levels are sufficient to conclude that the community is making a sufficient contribution for the municipal resources consumed each year. An 'adjusted' surplus/deficit is achieved by offsetting the amount of depreciation related to externally funded assets. Municipalities need to assess the result of this calculation taking into consideration its own circumstances and levels of backlogs. If the outcome is a deficit, it may indicate that rates and service charges are insufficient to ensure that the community is making a sufficient contribution toward the economic benefits they are consuming over the medium term.

It needs to be noted that a surplus does not necessarily mean that the budget is funded from a cash flow perspective and the first two measures in the table are therefore critical.

### *7.5 Debt impairment expense as a percentage of billable revenue.*

This factor measures whether the provision for debt impairment is being adequately funded and is based on the underlying assumption that the provision for debt impairment (doubtful and bad debts) has to be increased to offset under-collection of billed revenues. Considering the debt incentive scheme and the municipality's revenue management strategy's objective to collect outstanding debtors of 90 days, the provision is well within the accepted leading practice.

### *7.6 Capital payments percentage of capital expenditure*

The purpose of this measure is to determine whether the timing of payments has been taken into consideration when forecasting the cash position. It can be seen that a 100 per cent timing discount has been factored into the cash position forecasted over the entire financial year. The municipality aims to keep this as low as possible through strict compliance with the legislative requirement that debtors be paid within 30 days.

### *7.7 Borrowing as a percentage of capital expenditure (excluding transfers, grants and contributions)*

The purpose of this measurement is to determine the proportion of a municipality's 'own-funded' capital expenditure budget that is being funded from borrowed funds to confirm MFMA compliance. Externally funded expenditure (by transfers/grants and contributions) has been excluded.

### **Transfers/grants revenue as a percentage of Government transfers/grants available**

The purpose of this measurement is mainly to ensure that all available transfers from national and provincial government have been budgeted for. A percentage less than 100 per cent could indicate that not all grants as contained in the Division of Revenue Act (Dora) have been budgeted for. The Municipality has budgeted for all transfers.

#### *7.8 Consumer debtors change (Current and Non-current)*

The purpose of these measures is to ascertain whether budgeted reductions in outstanding debtors are realistic. There are 2 measures shown for this factor; the change in current debtors and the change in long term receivables, both from the Budgeted Financial Position. Both measures show a relatively stable trend in line with the Municipality's policy of settling debtor's accounts within 30 days.

#### *7.9 Repairs and maintenance expenditure level*

This measure must be considered important within the context of the funding measures criteria because a trend that indicates insufficient funds are being committed to asset repair could also indicate that the overall budget is not credible and/or sustainable in the medium to long term because the revenue budget is not being protected.

#### *7.10 Asset renewal/rehabilitation expenditure level*

This measure has a similar objective to aforementioned objective relating to repairs and maintenance. A requirement of the detailed capital budget (since MFMA Circular 28 which was issued in December 2005) is to categorise each capital project as a new asset or a renewal/rehabilitation project. The objective is to summarise and understand the proportion of budgets being provided for new assets and also asset sustainability.

### **Cash Backed Reserves/Accumulated Surplus Reconciliation**

This following table meets the requirements of MFMA Circular 42 which deals with the funding of a municipal budget in accordance with sections 18 and 19 of the MFMA. The table seeks to answer three key questions regarding the use and availability of cash: • What are the predicted cash and investments that are available at the end of the budget year? • How are those funds used? • What is the net funds available or funding shortfall? A surplus would indicate the cash-backed accumulated surplus that was/is available. A shortfall (applications > cash and investments) is indicative of non-compliance with section 18 of the MFMA requirement that the municipality's budget must be 'funded'. Non-compliance with section 18 is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded (budgeted spending is greater than funds available or to be collected). It is also important to analyse trends to understand the consequences, e.g. the budget year might indicate a small surplus situation, which in itself is an appropriate outcome, but if in prior years there were much larger surpluses then this negative trend may be a concern that requires closer examination.

## 8 Municipal manager's quality certificate

I ....., municipal manager of Alfred Nzo District Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name \_\_\_\_\_

Municipal manager of Alfred Nzo District Municipality (DC44)

Signature\_\_\_\_\_

Date\_\_\_\_\_